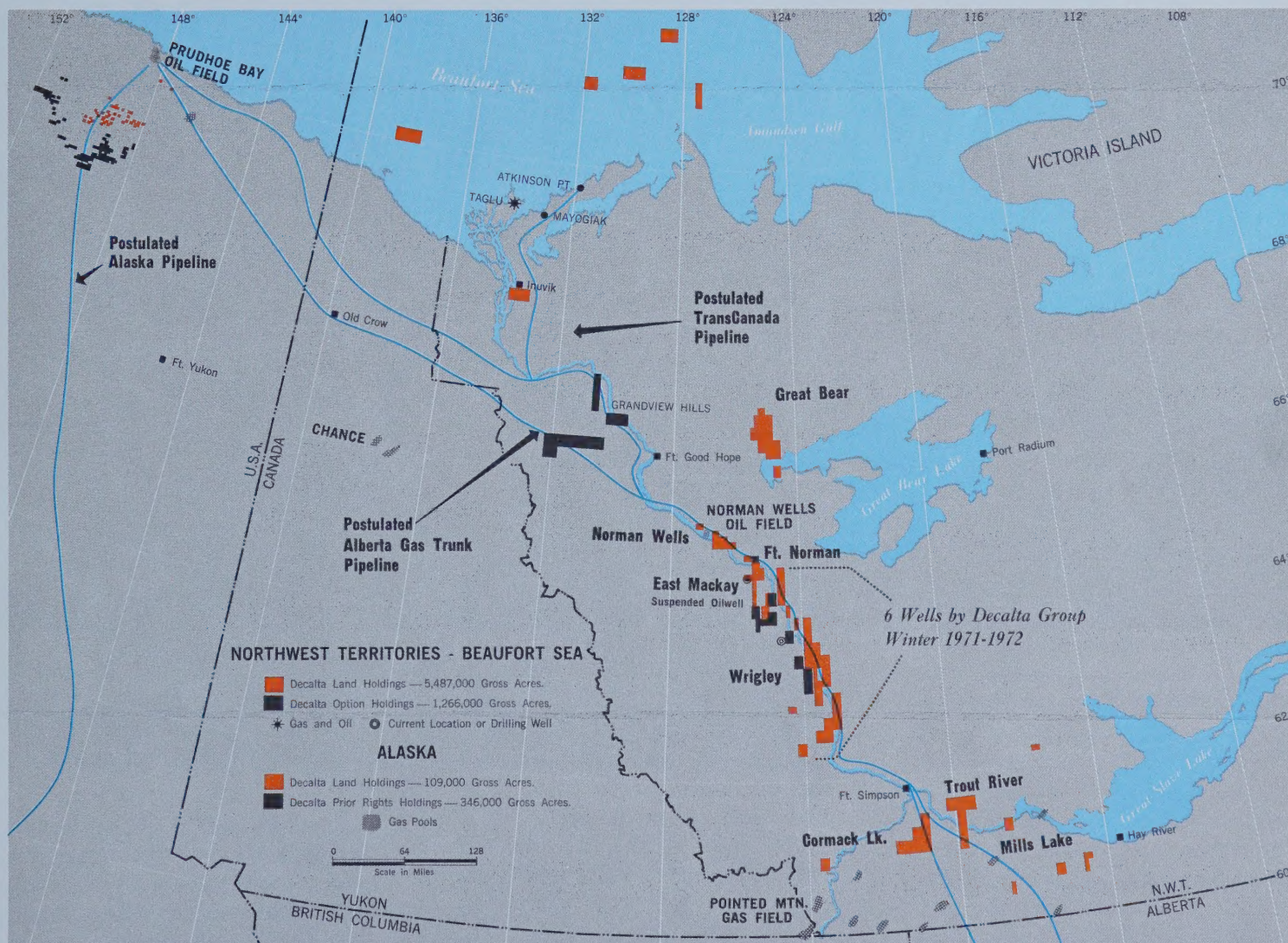




Winter Drilling Program Set For Mackenzie Valley



The Northwest Territories

Mackenzie River Valley

Preparations are now underway for an active winter exploration program on Decalta's lands along the Mackenzie River Valley. The program will include 6 exploratory

wells and over 400 miles of seismic surveys. In an area from the Arctic Ocean south to Wrigley (see map), your Company owns varying interests in 2,482,000 acres and holds options to earn interests in an addi-

tional 1,266,000 acres. These lands are well situated relative to any gas or oil pipeline routes from Prudhoe Bay or the Mackenzie River Delta.

As mentioned in previous reports on the Fort Norman-Wrigley area,

— continued on page two



Arctic Islands

Prince of Wales

The Company is conducting a marine seismic and gravity meter survey on part of the lands and stockpiling fuel and constructing an airstrip for an extensive seismic program to be done in the spring of 1972. Your Company's lands lie close to a gas pipeline route being examined as a possible alternative for moving gas from the Arctic when sufficient reserves are proved.

The Panarctic-Deminex Garnier well on the east side of Cornwallis Island has been abandoned at 10,052 feet.

Polynia Islands

As noted in our previous report, the B.P. - Panarctic Satellite F-68 well on Prince Patrick Island is to be commenced in the fall of 1971. This location is 25 miles from our Polynia acreage in which your Company owns a 100% interest in 82,360 permit acres.

THE NORTHWEST TERRITORIES — continued from page one

the Decalta group has been conducting seismic on four "seismic options". In each case prospects have been found and in each case it has been decided to drill the earning well. As a result of drilling these four wells, your Company and

its associates will earn 50% in 253,578 acres. The wells range in depth from 6,500 feet to 10,500 feet.

Two other wells will be drilled on Decalta lands at no cost to the Company. The locations of these six wells which will be drilled during the 1971-72 drilling season will be shown on a map in our November issue of this report in addition to the well locations of other companies in the area. Your Company now has 1,000 miles of seismic in this area.

Decalta has further strengthened its substantial land position by taking an option on 815,000 acres in

WESTERN DECALTA PETROLEUM LIMITED
and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

	First Half	
	1971	1970
INCOME		
Net oil and gas sales	\$3,230,000	\$2,727,000
Interest and other income	97,000	90,000
	<u>3,327,000</u>	<u>2,817,000</u>
CASH EXPENSES		
Production	715,000	594,000
General administrative (net)	135,000	82,000
Interest	491,000	481,000
	<u>1,341,000</u>	<u>1,157,000</u>
CASH FLOW FROM OPERATIONS	<u>1,986,000</u>	<u>1,660,000</u>
NON-CASH EXPENSES		
Depreciation and depletion	1,180,000	1,020,000
Amortization of debenture issue	11,000	11,000
(Discount) on debentures purchased for cancellation	(63,000)	(105,000)
	<u>1,128,000</u>	<u>926,000</u>
INCOME before minority interest	<u>858,000</u>	<u>734,000</u>
Income applicable to minority interest	<u>104,000</u>	<u>88,000</u>
NET INCOME	<u>\$ 754,000</u>	<u>\$ 646,000</u>
CASH FLOW per common share	27.9¢	23.8¢
NET INCOME per common share	10.6¢	9.3¢

Subject to adjustment and audit at year end

PRODUCTION

Oil and Condensate (barrels) —		
Gross	1,095,000	950,000
Net	930,000	809,000
Natural Gas (mcf) —		
Gross	2,867,000	3,026,000
Net	2,457,000	2,623,000

the Grandview Hills area as shown on the map. A \$1.2 million seismic program will be conducted this winter in conjunction with our exploration group of companies. Drilling is scheduled for this land in the winter season of 1972-73.

Beaufort Sea

A major company's discovery of oil and gas in 3 wells on the Tuk Peninsula and the Mackenzie Delta has stimulated additional exploration plans for this winter. Further

successes will increase interest in the onshore and also offshore acreage. Your Company owns interests in 628,000 permit acres in the Beaufort Sea. Seismic surveys have been completed on the Eastern portion of the Beaufort Sea. Interpretation of these records is under way.

Inuvik

At Inuvik plans are being made to do seismic on the western half of your Company's wholly-owned 142,000 acre block.

Financial

First Half 1971

Decalta's consolidated net income for the first half of 1971 totalled \$754,000 up \$108,000 (16.7%) over the same period last year; earnings per share for the respective periods amounted to 10.6¢ versus 9.3¢.

Cash flow from operations amounted to \$1,986,000 (27.9¢ per share), a 19.6% increase over the first half of 1970 (\$1,660,000 or 23.8¢ per share).

Net oil sales rose by \$507,000 (24.3%) to \$2,591,000; the increase was derived from larger volumes sold (+\$311,000) and a higher price for crude oil (+\$196,000). Natural gas revenues totalled \$597,000, down \$12,000 (2.1%) from last year. New production during the first half did not quite offset a \$45,000 decrease in revenues from properties in Lake Erie, Ontario where mechanical problems were encountered in the first quarter of this year.

Production

Net production of crude oil and condensate amounted to 930,000 barrels (5,138 barrels daily) a 15.0% gain over the first half of 1970. Net sales of natural gas decreased 6.3% to 2.457 billion cubic feet or an average daily output of 13.6 million cubic feet.

Offshore Newfoundland

The first of two Tenneco wells, Lief E-48, is now drilling. This well was originally spudded on July 6, but surface difficulties forced a new start about one-half mile away. Decalta owns a 50% interest in two blocks consisting of 285,000 permit acres and 886,000 permit acres. Marine seismic programs are being conducted over these properties this summer.

Other Areas

The Company is starting a 5 well drilling program in Central Alberta in the Strathmore and Trochu areas. Follow-up drilling is also planned at Baxter Lake, Alberta. The Company will be participating in the drilling of three wells in Ontario and a well at Hallettsville, Texas.

The Company has completed gas wells at Rich and Medicine River in Alberta, and Makwa in Saskatchewan. One oil well was completed at Willmar, Saskatchewan and further drilling is anticipated in this area. A dry hole was drilled in northern Montana in the Red Coulee area.

A well is being drilled in New Brunswick where New Brunswick Oilfields Limited, a subsidiary of the Company, owns 100% in 5,453,000 lease acres. Negotiations for further seismic and drilling to be done in this area are being carried out.

WESTERN DECALTA PETROLEUM LIMITED and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE and APPLICATION OF FUNDS

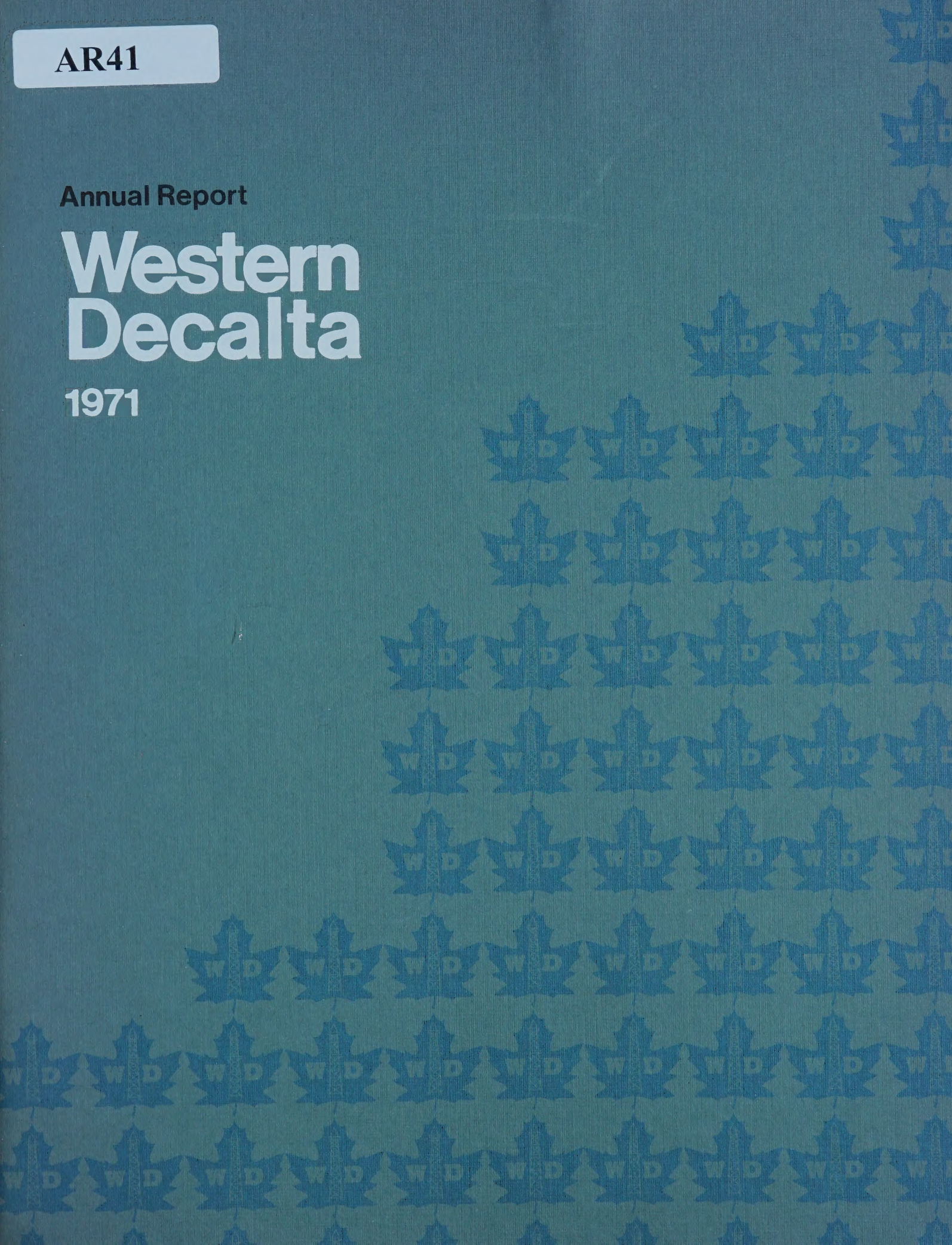
	For Six Months Ended June 30	
	1971	1970
SOURCE OF FUNDS:		
Cash flow from operations	\$1,986,000	\$1,660,000
Issue of capital stock	6,000	728,000
Sale of production payments	915,000	1,480,000
Other	—	35,000
	<u>2,907,000</u>	<u>3,903,000</u>
APPLICATION OF FUNDS:		
Additions to property and equipment . . .	1,326,000	1,518,000
Purchase of shares of Western & Texas Oil Co. Limited	1,975,000	—
Repayment of notes and debentures	231,000	996,000
Retirement of production payments	1,625,000	1,026,000
Other	23,000	89,000
	<u>5,180,000</u>	<u>3,629,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL .	<u>\$(2,273,000)</u>	<u>\$ 274,000</u>

AR41

Annual Report

Western Decalta

1971

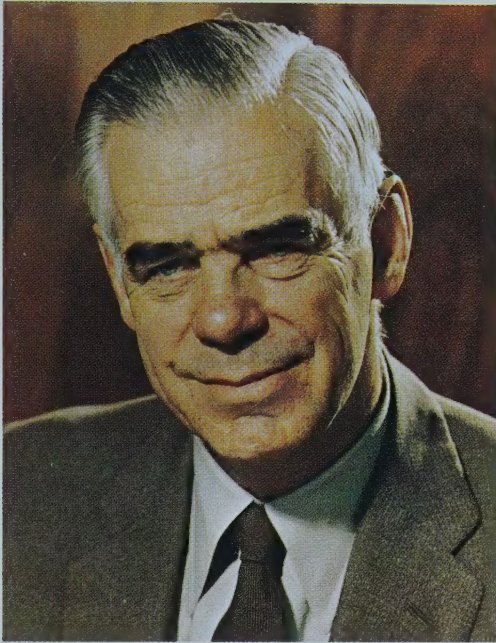


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Summary of the Year 1971

	1971	1970	Change
FINANCIAL			
Gross income	\$ 6,921,000	\$ 5,800,000	+19.3%
Cash flow	4,080,000	3,384,000	+20.6%
Per share	.57	.48	
Depreciation and depletion	2,401,000	2,069,000	+16.0%
Net income	1,539,000	1,218,000	+26.4%
Per share	.22	.17	
Working capital	2,226,000	3,529,000	-36.9%
Exploration and development expenditures . . .	4,919,000	2,477,000	+98.6%
OPERATING			
Oil and condensate production - net barrels .	1,973,000	1,679,000	+17.5%
Daily average - net barrels	5,405	4,600	
Natural gas sales - net million cu. ft.	5,302	5,429	- 2.3%
Daily average - net million cu. ft.	14.5	14.9	
Proven and probable additional reserves			
Oil and condensate - gross barrels	35,833,000	33,654,000	+ 6.5%
Natural gas - gross mcf	200,000,000	208,000,000	- 3.8%
Sulphur - long tons	643,000	645,000	-
Land holdings			
Gross acres	24,707,000	27,804,000	-11.1%
Net acres	10,870,000	11,302,000	- 3.8%



Chairman Charles S. Lee

To the Shareholders

During 1971, Western Decalta added new dimensions to its exploration effort. It also broadened its financial base by the first issue of stock in the United States.

The Company is actively seeking representation in other prospective oil areas throughout the world. Decalta is participating in applications for permits to explore and develop oil properties in the Mediterranean and in the United Kingdom sector of the North Sea. As a result of the applications in the U.K. North Sea, the Home Oil/Charter Consortium was awarded permits 210/19 and 38/2. Charter Consolidated will in due course apply to the Secretary of State for permission to transfer to Western Decalta a 5% interest in these permits.

Financially, the Company has had a good year. Gross income in 1971 rose 19.3% to \$6,921,000; net oil and gas sales increased by 20.4% to \$6,747,000. Cash flow from operations amounted to \$4,080,000 (57c per share), a 20.6% gain over last year's \$3,384,000 (48c per share). Net income totalled \$1,539,000 (22c per share) in 1971 versus \$1,218,000 (17c per share) in 1970. Development and exploration expenditures amounted to \$4,919,000 in 1971 compared to \$2,477,000 in 1970. The 1971 total includes \$1,749,000 ascribed to capital assets of Western & Texas Oil Co. Limited on purchase of its shares during the year. The Company's accounts do not reflect the purchase of oil and gas properties and a Gas Plant in Turner Valley which, although agreed to in 1971, will not reflect in revenues until 1972.

On March 31, 1971, the Company's common shares were listed for trading on the American Stock Exchange and, in the latter part of the year, an Underwriting group, managed by Stone & Webster Securities Corporation, arranged for the sale, in the United States of 1,000,000 shares of Western Decalta stock. The actual sale took place in January 1972, netting the Company approximately \$6,800,000 after expenses.

The Company's crude oil and condensate production rose 17.5% to 1,973,000 barrels. Daily net production was 5,405 barrels versus 4,600 barrels per day last year. Natural gas sales totalled 5.3 billion cubic feet compared with 5.4 billion cubic feet last year.

During 1971, the Company participated in the drilling of 59 gross (14.7 net) wells; but the wells drilled in the Northwest Territories were the most interesting. Three wells were drilled on the Company's properties in the early part of 1971 in the Mackenzie River Valley in the Northwest Territories; one at Keele River, one at Police Island and one, completed as an oil discovery, at East Mackay. In this winter season of 1971/72, three more wells have been drilled; two gave no encouragement but a third, at Tate Lake, had non-commercial oil and gas shows in two horizons which previously had had no indications in this region. A further three wells will be drilled on the properties during the 1971/72 drilling season; two of which are now in progress. At the present time, nine additional wells are being drilled by other companies close to the Company's properties in the Mackenzie Valley.

A proposed route for postulated oil and gas lines, to carry oil and/or gas from the Mackenzie Delta and/or Alaska, is down the Mackenzie Valley. The Company has properties extending over 300 miles in this Valley, so any pipeline development in close proximity is bound to be of great interest to us. In the past two months increasingly optimistic reports of discoveries of oil and gas in the Mackenzie Delta, particularly gas, and comments by Government officials, have improved the chances of construction of a gas pipeline.

At year end the Company had varying interests in 24,707,400 gross acres equivalent to 10,870,400 net acres.

At December 31, 1971, proven and probable reserves of crude oil and condensate totalled 35,833,000 gross barrels (33,654,000 gross barrels last year). Natural gas reserves amounted to 200 gross billion cubic feet versus 208 billion cubic feet last year. Sulphur reserves were approximately the same as in 1970 at 643,000 long tons.

The foregoing recital of the Company's affairs does not reflect the full scope of the Company's activities. For example, since 1967, through joint ventures and syndicates, the Company has been responsible for investing on behalf of others at least \$13.5 million in addition to \$19.0 million of its own funds. Apart from maintaining reserves, the availability of these funds has made it possible to nearly double the Company's land holdings in the geologically attractive basins of Canada. Furthermore, in exchange for part of the Company's interest in its



President Alastair H. Ross

properties, other companies have spent under farmout agreements \$6.1 million, most of which was derived from foreign sources.

The participation in most of Decalta's programs by Petrorep (Canada) Ltd. and Corexcal Incorporated, the subsidiaries of two French companies and by Pacific Lighting Exploration Corporation of Los Angeles, has continued throughout the year and will continue. The funds provided by these three organizations, together with Western Decalta's cash flow, aggregates approximately \$8,000,000 a year for investment in projects by the Decalta management.

It must be evident that a high proportion of all the funds managed by Decalta and funds used in the exploration of the Company's lands are derived from foreign sources. The Company has not been able to find risk or venture capital, in the amounts needed, in Canada.

Since tax incentives comparable to those offered to nationals of other countries operating in Canada are not available to Canadians for exploration in oil, there is limited Canadian enthusiasm for the risks of exploration in the oil business. We are convinced that until the Government of Canada appreciates that incentives are needed which recognize the high risk of oil ventures, there will be little change of attitude by Canadian individuals or companies. If, at the same time, the

Government of Canada pursues a deliberately anti-foreign investment policy, then the development of our energy sources will be materially reduced with a serious impact on employment and prosperity for Western Canada. The problems of a "screening process" for foreign investment by a Government agency have been stated in unofficial publications to include "the uncertainty which the structure poses for the business community; the additional degree of intervention a screening process represents in the private sector; the power which it places in public hands; the political pressure which the capacity to make these decisions will invite; the regional and other particular interests which will feel thwarted by the screening authorities; and the difficulties in making the judgments involved."

The question of financing exploration becomes increasingly vital and important and adverse policies will not assist in attracting the required investment. During the past two years, the Western Canadian oil industry has had difficulty in maintaining reserves of oil and gas. Indeed, for each of the past two years - 1970 and 1971, Canadian oil reserves showed a net decline from each previous year. However, allowable production has increased, due to better markets in the Middle West of the United States, and prices have increased. Decalta's increase in cash flow was, in fact, attributable to this situation and to the acquisition of the majority of the shares of Western & Texas, a company whose production is derived from the Wainwright oil field in Alberta.

The very large discoveries at Prudhoe Bay and the gas and oil discoveries in the Arctic Islands, the Mackenzie Delta, and the East Coast of Canada, have opened up the frontiers for which the industry has been hoping after a period of otherwise relatively poor exploration results since 1967.

In the light of this relatively rapid series of recent discoveries, the overwhelming need for oil and gas on the North American continent, and the hopes for increased prices despite possible Government levies, the decade 1972-1981 must be regarded with optimism by the Western Canadian oil industry provided Governments are responsive to industry requirements.

The need for energy, particularly gas in the United States, has had other interesting side effects. In 1970/71, a number of utility companies from the United States undertook to spend substantial amounts of money on exploration in the frontier areas of Canada with the object of obtaining a

dedication of any gas reserves that might be found. However, when the National Energy Board in November, 1971, announced that there was no surplus gas available in Canada for export, this decision contributed to a reduction of the infusion of exploration funds from the United States utility companies. On the other hand, in the light of recent developments and discoveries in the Arctic Islands and in the Mackenzie Delta, we can reasonably hope that this type of investment will once again become a feature of our industry.

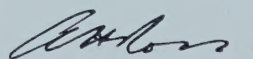
This year, two members of the Board of Directors will not be standing for re-election. We wish Dr. Arnold Waters a very happy retirement; we shall greatly miss his enthusiasm and optimism for the projects upon which the Company has been engaged. We shall also miss the financial counsel of Mr. Alan McKerron, who has returned to South Africa.

Following last year's Annual Meeting, Mr. Lee was elected Chairman of the Board and Chief Executive Officer, and Mr. Ross was elected President of the Company. Mr. Ross also served in the position of President of the Independent Petroleum Association of Canada in 1971.

On behalf of the Board of Directors, we wish to pay particular tribute to all members of our Company who contributed so much to the growth of Decalta during 1971. In the challenge of exploring new frontiers and in meeting the increasing demand for oil and gas, their jobs were well done.



Chairman of the Board
and Chief Executive Officer



President

Calgary, Alberta.
March 17, 1972.

Review of Operations

Production

Crude Oil and Condensate

Decalta's net crude oil and condensate production rose to 1,973,000 barrels in 1971, a gain of 294,000 barrels (17.5%) over 1970. Daily net production averaged 5,405 barrels (4,600 in 1970).

As will be noted in the accompanying tabulation, the growth in Decalta's production came principally from Alberta and Montana. The growing demand for Alberta crude resulted in higher producing allowables in the Mitsue, Pembina, Simonette and West Drumheller fields. The acquisition of Western & Texas Oil Co. Limited during 1971 provided the larger volume from the Wainwright field.

Province/State	1971 (in thousands of net barrels)	Change from 1970 (in thousands of net barrels)
Canada:		
Alberta	1,680	+ 282
British Columbia	56	+ 6
Saskatchewan	97	— 13
New Brunswick	8	+ 1
	1,841	+ 276
U.S.A.:		
Montana	109	+ 18
Texas	22	+ 3
Other	1	— 3
	1,973	+ 294

Secondary recovery projects in the Red Coulee field, Alberta and the Company's fields in Montana also contributed to the increased production. The average price received during 1971 for crude was \$2.77 per barrel (\$2.59 in 1970).

In the anticipation of higher oil production allowables, Decalta will be investing in projects designed to increase the producing capacity of its current properties. These projects include infill drilling programs, secondary recovery and the expansion of gas plant facilities where they restrict oil production capacities.

Natural Gas

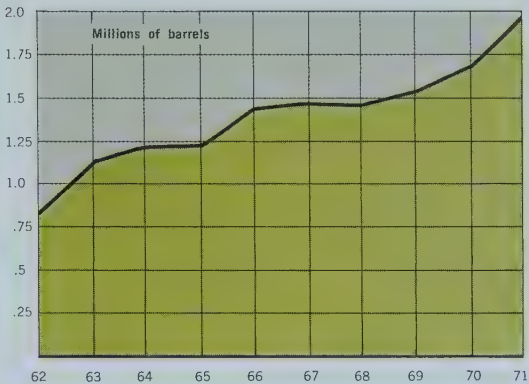
Sales of natural gas totalled 5.3 billion cubic feet in 1971, compared with 5.4 billion in 1970. Higher deliveries from such Alberta fields as Simonette and Turner Valley, together with new production from Hussar, partially offset the natural decline in other fields and the sale of a portion of the

Company's interest at Ghost Pine. The average price received for natural gas and liquid products in 1971 was 22.7c per mcf, compared with 22.0c last year.

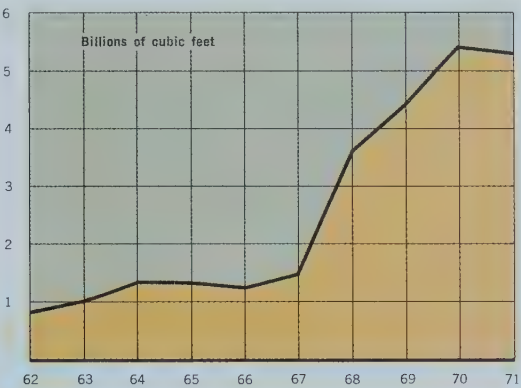
Turner Valley

Under an agreement with Gulf Oil Canada Limited, Decalta and associates have acquired all of that company's interests in the unitized zones in the Turner Valley field in Alberta. This acquisition included all of the outstanding shares of Madison Natural Gas Company Limited, a company which owns and operates the gas processing plant at Turner Valley. Production, revenues and reserves resulting from this purchase will be reflected in our 1972 reports to shareholders.

Crude Oil & Condensate Production



Natural Gas Production



Drilling Activity

Decalta participated in the drilling of 59 gross wells in 1971 with an average well participation of 24.9%. Of this total 23 gross (4.9 net) wells were development wells and 36 gross (9.8 net) were exploratory wells. In lieu of cash, the Company contributed acreage to support the drilling by others of 13 of the 36 exploratory wells.

The results of this drilling program are shown on the accompanying tabulation.

Drilling Results	Type of Well	Successful Wells	
		Gross	Net
Alberta	Oil	11	2.8
Alberta	Gas	9	1.6
British Columbia	Oil	1	0.1
Saskatchewan	Oil	4	1.3
Northwest Territories .	Oil	1	0.2
		26	6.0

Wells Drilled	Gross Wells		Net Wells	
	1971	1970	1971	1970
Development:				
Oil	16	9	3.8	2.8
Gas	1	1	0.1	0.1
Dry	6	1	1.0	0.4
	23	11	4.9	3.3
Exploration:				
Oil	2	3	0.6	0.6
Gas	7	10	1.5	1.9
Dry	27	26	7.7	5.8
	36	39	9.8	8.3
Total wells	59	50	14.7	11.6
Average well participation	24.9%		23.2%	
Success Ratios:				
Development	79.6%		87.9%	
Exploration	21.4%		30.1%	



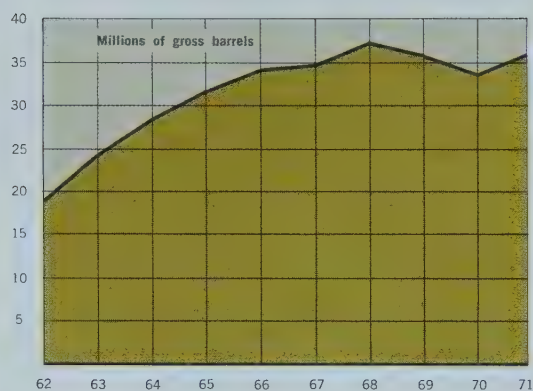
Reserves

At January 1, 1972 reserves of crude oil and condensate totalled 35,833,000 gross barrels, an increase of 2,179,000 barrels, after providing for gross oil production during the year of 2,327,000 barrels. Natural gas reserves declined from 208 billion cubic feet to 200 billion cubic feet. Gross natural gas production during 1971 totalled 6.1 billion cubic feet. Sulphur reserves were approximately the same as last year at 643,000 long tons.

A summary of Decalta's reserves as compiled by an independent consultant is shown in the accompanying tabulation.

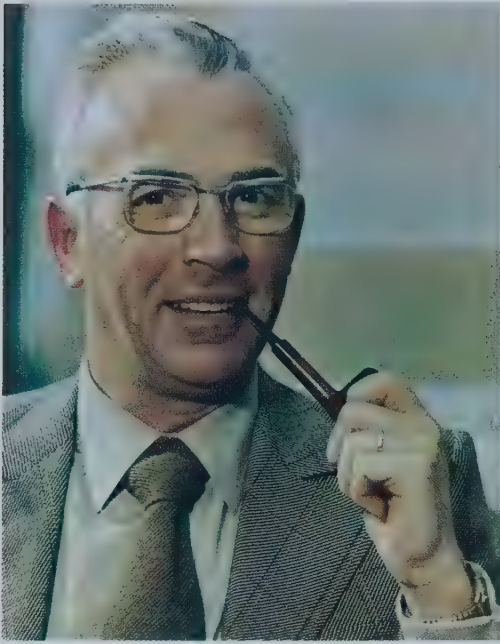
Proven and Probable Additional	January 1	
	1972	1971
Crude Oil (gross bbls.)	35,833,000	33,654,000
Residue Natural Gas (gross mcf)	200,000,000	208,000,000
Sulphur (gross long tons)	643,000	645,000

Crude Oil Reserves



Natural Gas Reserves





A. M. Patterson, Vice-President, Exploration

Exploration

In 1971, the Company continued to spend comparatively large sums on seismic work to outline prospects for drilling in succeeding years. Of the total amount of \$2,419,000 spent on exploration, \$587,000 was spent on seismic work almost exclusively in the frontier areas of Canada. Heavy emphasis has been placed on seismic in the Mackenzie Valley where the Company has extensive properties for exploration. It becomes increasingly apparent that the considerable number and variety of prospects which are being located will take a number of years to evaluate.

Some seismic anomalies, revealed by previous years' seismic work, were drilled in the Northwest Territories, as outlined later in this report; however, in general terms, drilling expenditures were shared between this area and the central part of Alberta. Since the end of the year, Decalta's drilling program in the Northwest Territories has concentrated on the Mackenzie River Valley, but a number of wells also have been drilled in the plains area of British Columbia and Alberta.

Northwest Territories

In the Northwest Territories, the Company owns interests in various permits, totalling 3,535,900 gross (2,102,900 net) acres, and has options to earn varying interests in an additional 1,665,800 gross (235,800 net) acres. These are referred to as the "option lands" in the following text.

MACKENZIE RIVER VALLEY

Norman Wells to Camsell Bend (Map 1)

In this region, the Company owns varying interests, ranging from 12½ % to 100% in 1,720,700 gross (843,900 net) permit acres, extending 228 miles along the Mackenzie River Valley. During the winter season 1970/71 three wells were drilled on our lands at Keele River, at East Mackay and at Police Island. The 20.4° oil discovery at East Mackay has been reviewed in various progress reports during the year. The wells at Keele and Police Island were both abandoned.

In the 1971/72 winter season 215 miles of seismic will be done on our lands in this area, making a total of approximately 1,300 miles of seismic available to your Company. Seismic, to date, has only been done on part of our lands and it has indicated a number of structures. During the 1971/72 drilling season, Decalta has participated



Mackenzie River Valley Area Norman Wells to Camsell Bend

Decalta Land Holdings Permit Acres

%	Gross	Net
100.00	555,656	555,656
50.00	83,501	41,751
33.33	56,332	18,778
30.00	290,936	87,281
25.00	313,767	78,442
16.66	54,664	9,111
12.50	308,360	38,545
	1,663,216	829,564

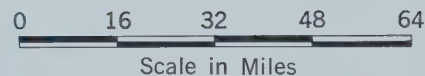
Lease Acres

%	Gross	Net
25.00	57,500	14,375

Decalta Option Holdings Permit Acres

%	Gross	Net
16.66	312,689	52,114
12.50	222,795	27,850
	535,484	79,964

- ⊙ → Location or Drilling Well (Decalta participation)
- ⊙ Location or Drilling Well (Decalta no participation)
- ✦ Abandoned Well



Locations on Decalta Land Holdings

Well	Well Name	Decalta's % Share of Drilling Costs	After Farmee Drills Decalta Will Retain		
			%	Gross Acres	Net Acres
① →	Candel Dec K.M.G. et al Tate J-65	Nil	12.5	55,167	6,896
⑥ →	Candel Dec K.M.G. et al Ft. Norman K-14	Nil	12.5	27,205	3,400

Locations on Decalta Option Holdings

Well	Well Name	Decalta's % Share of Drilling Costs	After Drilling Decalta Will Earn		
			%	Gross Acres	Net Acres
② →	Candel Dec. L.R.I. et al Stewart	25.0	12.5	83,668	10,459
③ →	Decalta et al Dome Keele S. A-28	25.0	12.5	55,918	6,990
④ →	Decalta et al Champlin Dahadinni D-65	33.3	16.7	56,332	9,389
⑤ →	Decalta et al Gulf Amhess Wrigley I-54	33.3	16.7	57,660	9,610



in the drilling of the first three wells and three further wells will be drilled before break-up. The first three wells have been abandoned at Wrigley, Dahadinni and Tate Lake. At Tate Lake, however, two shows of hydrocarbons were found in two different formations, neither of which had indicated significant shows in previous wells.

GRANDVIEW HILLS (Map 2)

Decalta has taken options on two land blocks in the Grandview Hills area, located approximately 120 miles northwest of Norman Wells. On the first option land block, consisting of 815,000 gross (136,500 net) permit acres, an estimated \$1.2 million seismic program is being conducted. Decalta's share of the costs is 33⅓ %. A \$150,000 seismic program has already been completed over the second option land block, totalling 399,700 gross (33,300 net) acres. Decalta's share of the costs of this latter survey was 16⅔ %. In the event drillable prospects are located on these option lands, the first such prospects would be drilled during the winter season of 1972/73.

GREAT BEAR LAKE (Map 2)

In this area, Decalta owns 37½ % interest in 562,000 gross (211,000 net) permit acres. A major company has conducted a seismic survey on part of this property. This company may earn a 50% interest in 120,000 acres, by the drilling of a well in the 1972/73 drilling season.

MACKENZIE RIVER DELTA (Map 2)

The discovery of oil, gas and condensate by Imperial Oil at Atkinson Point, Taglu, Mayogiak and Mallik, and the recent announcement of a gas

and condensate discovery by Gulf Oil at Parsons Lake, all in the Mackenzie River Delta, have increased exploratory activities in the area and given grounds for optimism that sizeable reserves of oil and gas will be found.

The Company holds a 100% interest in 142,500 acres at Inuvik.

BEAUFORT SEA (Map 2)

Offshore, to the northwest and northeast of the Mackenzie River Delta, the Company holds varying interests, ranging from 11.6% to 100% in 628,000 gross (367,100 net) permit acres. Seismic surveys have been conducted over these properties, but Decalta has no plans at the present time to do any drilling. Other operators are attempting to resolve the problems involved in marine drilling operations in the Beaufort Sea.

CORMACK LAKE, TROUT RIVER, MILLS LAKE

Last year, it was reported that some 20 to 25 wells would be drilled during the 1970/71 winter drilling season. In fact, 17 wells were drilled and 3 of these were on seismic anomalies located on land in which Western Decalta has a 25% to 83⅓ % interest. None of these wells proved any commercial reserves of oil and gas, however, in one case, on the Trout River acreage in which the Company has a 25% interest, casing was run on an interval which tested some gas.

The recent negative results have downgraded this area in favour of other frontier areas. In the longer term, exploration will likely return to the area.

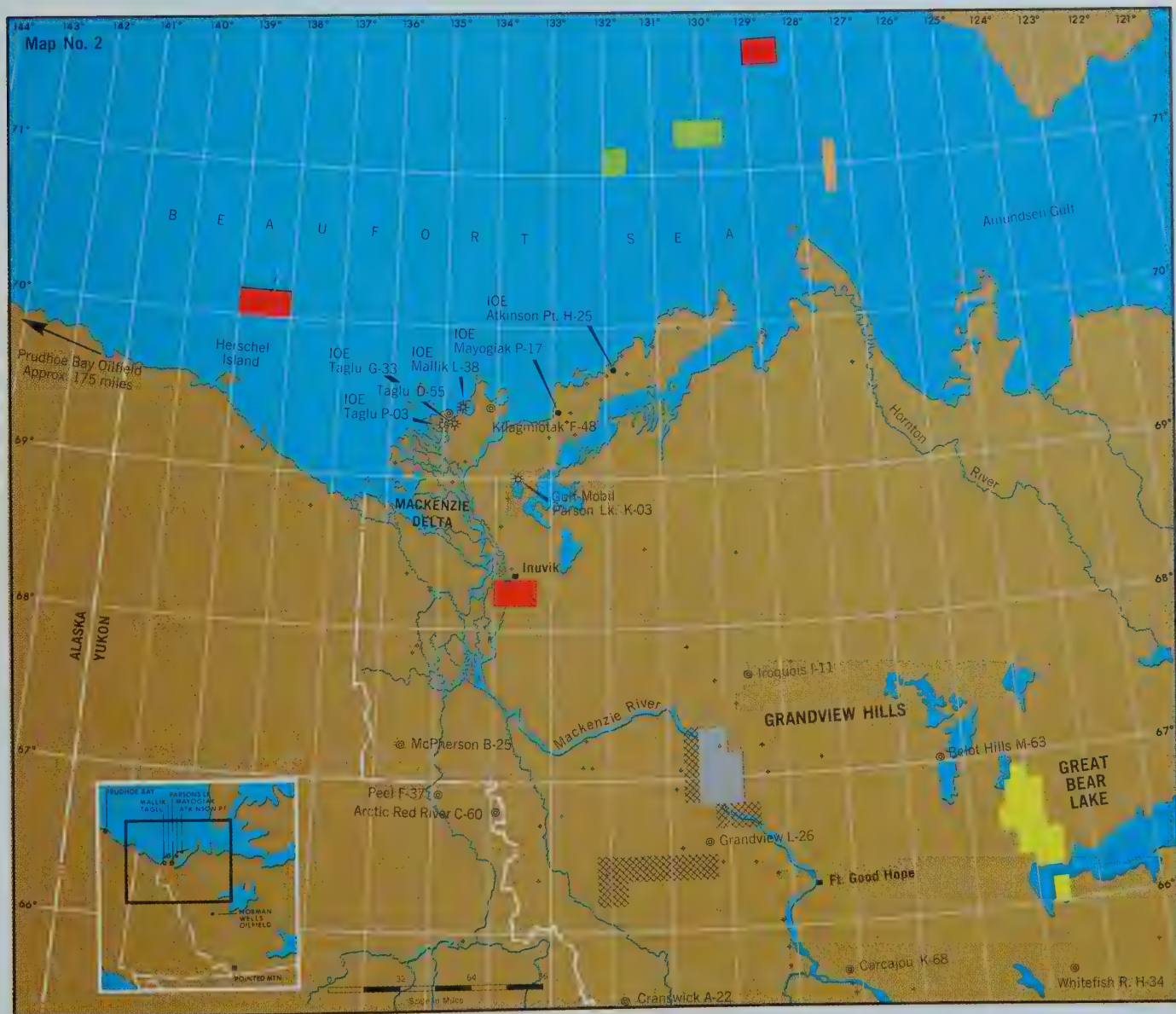
Beaufort Sea - Mackenzie Delta

Northwest Territories Decalta Land Holdings Permit Acres

	%	Gross	Net
	100%	438,894	438,894
	50%	83,526	41,763
	37.50%	561,887	210,708
	11.66%	248,115	27,568
		<u>1,332,412</u>	<u>718,933</u>

Decalta Option Holdings Permit Acres

	%	Gross	Net
	16.66%	815,112	135,852
	8.33%	399,702	33,309
		<u>1,214,814</u>	<u>169,161</u>





Arctic Islands (Map 3)

During the recent winter drilling season, industry has done extensive geophysical and drilling operations on the Arctic Islands; 7 wells were drilled and, currently 8 wells are drilling. Three separate gas discoveries have been made in the Arctic Islands at Drake Point, King Christian Island and Kristoffer Bay and one oil discovery at Romulus on Ellesmere Island. Flow rates of up to 165 million cubic feet a day were reported in the King Christian N-06 well.

The Company's holdings in the Arctic Islands total 5,221,300 gross (1,284,100 net) permit acres. Activities in the vicinity of Decalta's holdings are reviewed below.

POLYNIA AND PRINCE PATRICK ISLANDS

The Polynia Islands are a group of small islands lying between Prince Patrick Island to the south and Brock Island to the north. The Company owns 100% interest in 82,360 acres. These lands are located between two wells which have been drilling during the recent winter months, namely, BP-Panarctic Satellite F-68 and Panarctic-BP Skelly Brock C-50.

The Company also has holdings, primarily offshore, along the west side of Prince Patrick Island, consisting of 33⅓ % interest in 328,000 gross (109,000 net) permit acres, and along the south coast, where it holds a 12½ % interest in 156,000 gross (20,000 net) permit acres.

PRINCE OF WALES AND SOMERSET ISLANDS

In this area, Decalta owns varying interests in 4,580,000 gross (1,035,000 net) permit acres. The Company and its associates have conducted a marine seismic and gravity meter survey on part of this property. A fuel cache has been prepared for a seismic program to be done in the spring of 1972.

Alberta, Saskatchewan and British Columbia

The great need for energy on the North American Continent, particularly for natural gas, continues to create an optimistic outlook for gas reserves. The Company has, therefore, continued its policy of acquiring potential gas properties and endeavouring to develop gas reserves in Alberta and British Columbia with particular emphasis on the Foothills Belt and the Plains.

FOOTHILLS STRUCTURES

Land has been acquired, covering two possible structures, at Chowade in British Columbia, where the Company holds 33⅓ % interest in 29,600 acres. The structures are currently being checked by seismic work.

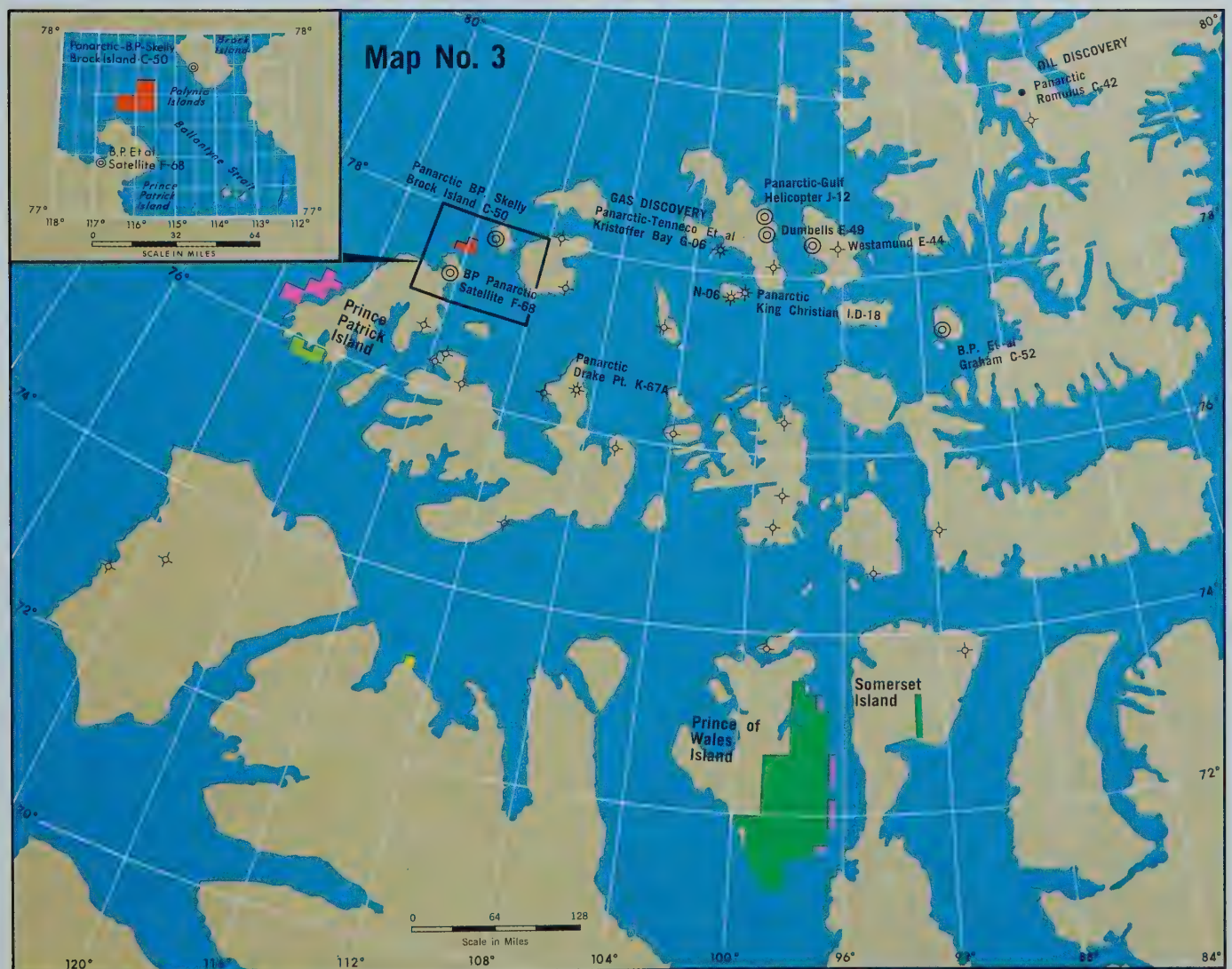
During the past two years seismic work has been done at Pincher Creek in Southern Alberta and a structure outlined. The majority of the land on the structure has now been acquired. Additional lands may be acquired prior to drilling.

Arctic Islands

Decalta Land Holdings Permit Acres

	%	Gross	Net
■	100%	82,360	82,360
■	50%	74,674	37,337
■	33.33%	328,094	109,365
■	23.37%	4,346,059	1,015,992
■	12.50%	156,263	19,534
■	8.33%	233,875	19,490
		<u>5,221,325</u>	<u>1,284,078</u>

- ⊙ Location or Drilling Well (Decalta no participation)
- ✱ Gas Well (Decalta no participation)
- ✧ Abandoned Well



Obed

At Obed, no further work has been done this year on the Company's property, however, one well, about 17 miles north of Obed, is reported to have made a discovery in the Upper Devonian. Gas prices in western Canada have been rising steadily and there will come a point at which the price of gas will justify the construction of a plant at Obed despite very low prices for sulphur. At the present time, the economics of the construction of a plant are such that we do not anticipate construction in 1972.

Atlantic Offshore

On the Atlantic Offshore, Mobil Oil encountered some 16 horizons containing oil, gas and condensate in their well at Sable Island. In addition to this, Shell Oil has now abandoned 26 wells and Mobil Oil is drilling its third location on Sable Island.

Preliminary seismic cross-sections have now been run over Decalta's properties off Newfoundland. The results of these surveys are now being studied. The Company owns a 50% interest in 1,170,600 gross acres in two blocks and a $\frac{1}{3}$ interest in 460,000 acres in scattered smaller blocks.

Hudson Bay

Two wells have now been drilled on the acreage, in which the Company holds a 5% interest, southwest of James Bay; neither of these wells gave any indication of hydrocarbons and no further drilling is contemplated at this time. The Company has therefore surrendered a portion of its acreage in this area.

New Brunswick

In New Brunswick, the Company drilled a well to test the Albert formation about 2½ miles southwest of the oil and gas field at Stoney Creek. No commercial oil or gas shows were encountered. The Company's subsidiary, New Brunswick Oilfield, Limited owns 100% in over 5 million lease acres located in the sedimentary basin of New Brunswick.

Overseas Ventures (Map 4)

Through its connections in Europe, the Company has become interested in ventures outside of Canada. Applications have been made in association with other companies in certain parts of the Mediterranean and in the U.K. North Sea. Long delays have occurred in the processing of the applications in the Mediterranean, but the results of the applications in the U.K. North Sea were made known on March 15, 1972.

Home Oil, operator of the Home/Charter consortium, reported that it was pleased with the two exploration blocks which had been awarded to the consortium. Block 210/19 lies approximately 16 miles west of block 211/21 for which the Shell-Esso group had earlier paid a cash bonus of \$54 million. The second block, 38/2 which lies near the Shell Auck field, is also recognized as being of considerable interest.

Blocks 210/19 and 38/2 total 106,600 acres; further detailed seismic work will be carried out on the blocks awarded and drilling operations will commence when suitable equipment becomes available. Charter Consolidated will in due course apply to the Secretary of State for permission to transfer to Western Decalta a 5% interest in these permits.

Acreage Holdings

At year end the Company held 24,707,400 gross (10,870,400 net) acres.

During the year the Company acquired interests in a number of holdings in various locations in the Western Provinces and the Northwest Territories. Included in these acquisitions were properties in the Fort Norman, NWT area, consisting of 54,700 acres; at Boyer River and Chauvin in Alberta, 42,400 acres; in the Hussar-Mallow area of Alberta, 130,400 acres and at Chinchaga in British Columbia, 13,900 acres.

During 1971, the Company surrendered 3,039,000 gross (290,700 net) acres in the Hudson Bay area following exploratory evaluation work and retained 7,032,800 gross (490,400 net) acres. Other property relinquishments included 120,000 gross (26,400 net) acres in the Caribou Mountain, Wood Buffalo and Callum Creek areas of Alberta.



Employees

Western Decalta and its subsidiaries employed 81 people at the end of 1971. On April 1, 1972, this number will be increased by some 30 persons who will be engaged in operating a gas plant and two additional unitized projects in the Turner Valley field, Alberta. The Company welcomes these new employees and their special skills.

Total employment costs during 1971, including wages, salaries and other related items, came to \$916,600, an increase of 8.4% over 1970. Included in this amount were the Company's contributions of \$13,700 to the employees' savings plan, \$51,600 to retirement plans and \$14,300 to group life insurance and health plans.

In the same period employees contributed \$27,400 to the savings plan, \$32,100 to retirement plans and \$11,600 to life insurance and health plans.

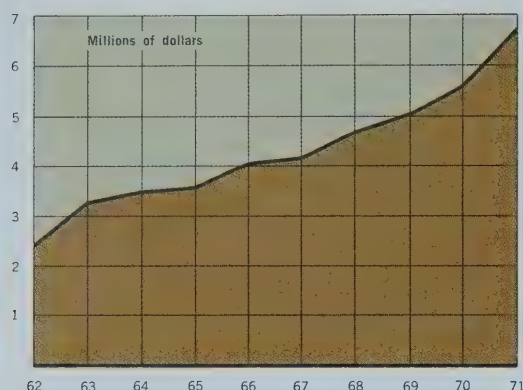
During the year, revisions were made in the retirement, group life and disability insurance plans to provide larger pension benefits and improved insurance coverage. The employees continued to avail themselves of the opportunity to acquire the common shares of the Company and other securities under the Savings Plan.

SUMMARY OF ACREAGE HOLDINGS

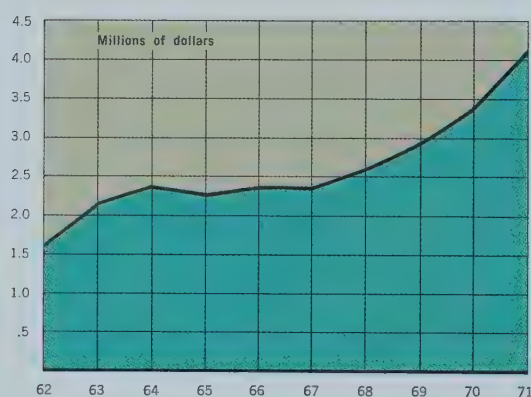
Area	Petroleum and Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada:						
Alberta	535,000	131,100	154,200	52,300	689,200	183,400
British Columbia	45,000	13,500	36,700	12,200	81,700	25,700
Hudson Bay	—	—	7,032,800	490,400	7,032,800	490,400
New Brunswick	5,453,000	5,453,000	—	—	5,453,000	5,453,000
Newfoundland (offshore)	—	—	1,630,200	738,500	1,630,200	738,500
Northwest Territories ...	57,500	14,400	3,478,400	2,088,500	3,535,900	2,102,900
Arctic Islands	—	—	5,221,300	1,284,100	5,221,300	1,284,100
Beaufort Sea	—	—	628,000	367,100	628,000	367,100
Ontario	153,400	153,400	—	—	153,400	153,400
Saskatchewan	20,600	11,600	98,400	29,700	119,000	41,300
United States:						
Alaska	109,100	19,500	—	—	109,100	19,500
Other	49,000	8,700	4,800	2,400	53,800	11,100
TOTAL	6,422,600	5,805,200	18,284,800	5,065,200	24,707,400	10,870,400

*Convertible into leases to the extent of approximately 50%.

Net Oil & Gas Sales



Cash Flow



Financial

Decalta achieved record-high earnings during 1971. Consolidated net income reached \$1,539,000, up \$321,000 or 26.4% over last year. Earnings on the weighted average number of shares outstanding rose from 17c to 22c per share.

Revenue from oil and gas sales amounted to \$6,747,000 (\$5,604,000 in 1970). Net oil sales increased by \$1,118,000 (25.7%) to \$5,460,000 as a result of larger volumes (\$758,000) and better prices (\$360,000). Natural gas sales amounted to \$1,203,000 compared with \$1,195,000 in 1970.

The Company's gross revenues in 1971 totalled \$6,921,000, 19.3% more than last year. Cash flow from operations increased by \$696,000 (20.6%) to \$4,080,000 (57c per share) compared with \$3,384,000 (48c per share) in 1970.

Expenditures for exploration and development totalled \$4,919,000 in 1971 compared with \$2,477,000 in 1970. A major item in the 1971 total was the \$1,749,000 ascribed to the capital assets of Western & Texas Oil Co. Limited on purchase of its shares during the year.

Trading of the Company's common shares on the American Stock Exchange (Symbol WDC) commenced on March 31, 1971. In January, 1972, a public offering of one million shares of the Company's common stock was made in the United States. Net proceeds amounting to \$6,800,000 will be used to repay the Company's short term loans which at December 31, 1971, amounted to \$900,000 and the balance will be used to carry on and expand the Company's program of acquisition, exploration and development of oil and gas properties.

Analysis of Gross Income

	1971	Change from 1970	
		Amount	%
Net Oil Sales	\$5,460,000	+1,118,000	+25.7
Net Gas Sales	1,203,000	+ 8 000	+ 0.7
Royalty Revenue	84,000	+ 17,000	+25.4
Net Oil and Gas Sales	6,747,000	+1,143,000	+20.4
Interest and Other Income	174,000	— 22,000	—11.2
Gross Income	\$6,921,000	+1,121,000	+19.3

Western Decalta Petroleum Limited
and Subsidiary Companies

Consolidated Balance Sheet

December 31, 1971 and 1970

ASSETS

	1971	1970
CURRENT:		
Cash	\$ 458,000	\$ 247,000
Short term investments at cost which approximates market	3,017,000	3,915,000
Accounts receivable	2,389,000	2,527,000
Inventory of materials at cost	143,000	139,000
Prepaid expenses	55,000	45,000
	<u>6,062,000</u>	<u>6,873,000</u>
REFUNDABLE DEPOSITS	40,000	44,000
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$19,547,000 (1970 - \$17,933,000)	30,187,000	27,505,000
Plant and equipment less accumulated depreciation of \$5,443,000 (1970 - \$5,047,000)	2,709,000	2,840,000
	<u>32,896,000</u>	<u>30,345,000</u>
OTHER:		
Sundry investments at cost	48,000	48,000
Debenture issue expense less amounts amortized	303,000	326,000
	<u>351,000</u>	<u>374,000</u>
	<u>\$39,349,000</u>	<u>\$37,636,000</u>

LIABILITIES

CURRENT:		
Bank loan - secured		\$ 500,000
Banker's acceptances - secured	\$ 900,000	
Accounts payable and accrued charges	2,592,000	2,328,000
Accrued interest on long term debt	114,000	116,000
Current maturities of long term debt	230,000	400,000
	<u>3,836,000</u>	<u>3,344,000</u>
DEFERRED PRODUCTION INCOME (Note 3)	5,077,000	5,401,000
LONG TERM DEBT (Note 4)	9,999,000	10,399,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES	2,670,000	2,317,000

SHAREHOLDERS' EQUITY (Note 5):

Capital (Notes 6 and 11)		
Authorized - 600,000 preferred shares of \$25 par value each - 10,000,000 common shares of \$1 par value each		
Issued - 7,130,425 common shares (1970 - 7,112,925 shares)	7,130,000	7,113,000
Contributed surplus (see statement page 19)	4,702,000	4,666,000
Earned surplus (see statement page 19)	5,935,000	4,396,000
	<u>17,767,000</u>	<u>16,175,000</u>
	<u>\$39,349,000</u>	<u>\$37,636,000</u>

On behalf of the Board:

 Director.

 Director.

See accompanying notes.

Western Decalta Petroleum Limited
and Subsidiary Companies

Consolidated Statement of Income

	FOR THE YEARS ENDED DECEMBER 31	
	1971	1970
Net oil and gas sales	\$ 6,747,000	\$ 5,604,000
Interest and other income	174,000	196,000
	6,921,000	5,800,000
Deduct:		
Production expenses	1,585,000	1,270,000
General and administrative expenses net of management fees earned	289,000	212,000
Interest expense	967,000	934,000
	2,841,000	2,416,000
Cash flow from operations	4,080,000	3,384,000
Deduct:		
Depreciation and depletion	2,401,000	2,069,000
Amortization of debenture issue expenses	23,000	23,000
Discount on debentures purchased for cancellation	(113,000)	(105,000)
	2,311,000	1,987,000
Income before minority interest	1,769,000	1,397,000
Income applicable to minority interest	230,000	179,000
Net income for the year (Note 8)	\$ 1,539,000	\$ 1,218,000
Net income per common share (Note 7)	\$.22	\$.17

Consolidated Statement of Source and Application of Funds

	FOR THE YEARS ENDED DECEMBER 31	
	1971	1970
Source of funds:		
Cash flow from operations	\$ 4,080,000	\$ 3,384,000
Sale of production payments	3,165,000	4,005,000
Sale of property		221,000
Issue of capital stock	53,000	779,000
Other	7,000	26,000
	7,305,000	8,415,000
Application of funds:		
Additions to property and equipment	3,202,000	2,754,000
Repayment and current maturities of debentures net of discounts	287,000	996,000
Retirement of production payments	3,489,000	2,311,000
Registration expenses		99,000
Investment in shares of subsidiary company net of working capital thereof (Note 1)	1,630,000	
	8,608,000	6,160,000
Increase (decrease) in working capital	(1,303,000)	2,255,000
Working capital at beginning of year	3,529,000	1,274,000
Working capital at end of year	\$ 2,226,000	\$ 3,529,000

See accompanying notes.

Western Decalta Petroleum Limited
and Subsidiary Companies

Consolidated Statement of Earned Surplus

	FOR THE YEARS ENDED DECEMBER 31	
	1971	1970
Earned surplus at beginning of year	\$ 4,396,000	\$ 3,178,000
Net income for the year	1,539,000	1,218,000
Earned surplus at end of year	<u>\$ 5,935,000</u>	<u>\$ 4,396,000</u>

Consolidated Statement of Contributed Surplus

	FOR THE YEARS ENDED DECEMBER 31	
	1971	1970
Balance at beginning of year	\$ 4,666,000	\$ 4,159,000
Premium on shares issued during year	36,000	606,000
Expenses of registration with Securities and Exchange Commission		(99,000)
Balance at end of year	<u>\$ 4,702,000</u>	<u>\$ 4,666,000</u>

See accompanying notes.

Notes to Consolidated Financial Statements

DECEMBER 31, 1971

1. Basis of the Financial Statements

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The excess of the unamortized cost of purchased subsidiaries over the related net asset values at dates of purchase amounts to \$1,786,000 at December 31, 1971 and is included in oil and gas properties. All significant intercompany transactions have been eliminated on consolidation.

During the year the Company acquired 99% of the preferred shares and 88.3% of the common shares of Western & Texas Oil Co. Limited for \$2,103,000 cash. The acquisition has been accounted for as a purchase and the results of operations of Western & Texas are included in these consolidated financial statements from the date of acquisition, April 1, 1971.

Particulars of the net assets of Western & Texas Oil Co. Limited acquired during the year are as follows:

Working capital	\$ 473,000	
Book value of other net assets (principally oil and gas properties)	\$ 812,000	
Adjustment to bring oil and gas properties to fair value	942,000	
	<u>1,754,000</u>	
Less minority interest	124,000	1,630,000
Total cost of investment paid in cash by Western Decalta ..	<u>\$2,103,000</u>	

2. Accounting Practice

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. Deferred Production Income

During the year production payments, representing a portion of the companies' interest in future production from certain oil lands, were sold for \$3,165,000 cash. Production from the interests in the oil and gas reserves of the lands covered by these production payments will revert to the companies after repayment of the principal amounts. Due to the short term nature of these financing arrangements, all of which are expected to be retired within three years, proceeds from the sales of the production payments have been deferred in the

accounts and are reflected in income as the related oil and gas reserves are produced and sold. Repayments during the year on production payments sold in the current and prior years amounted to \$3,489,000.

4. Long Term Debt

	1971	1970
6% Sinking Fund Debentures Series A due June 1, 1985 .	\$ 5,229,000	\$ 5,799,000
7% Convertible Sinking Fund Debentures Series B due September 30, 1985	5,000,000	5,000,000
	<u>10,229,000</u>	<u>10,799,000</u>
Deduct:		
Sinking fund instalments on Series A Debentures due within one year	230,000	400,000
Per balance sheet	<u>\$ 9,999,000</u>	<u>\$10,399,000</u>

The 6% Sinking Fund Debentures Series A and 7% Convertible Sinking Fund Debentures Series B are secured by a first floating charge on the undertaking, property and assets of the Company. The Series A Debentures are subject to sinking fund payments of \$400,000 in 1972 (of which \$170,000 was paid in 1971) and thereafter in each year until 1984. The Series B Debentures are subject to sinking fund payments of \$275,000 in 1979 and thereafter in each year until 1984 and may be redeemed after October 1, 1973. The Series B Debentures are convertible at any time prior to the close of business on October 1, 1978 on the basis of 200 common shares for each \$1,000 principal amount of the Debentures.

5. Dividends

The trust deed securing the 6% Sinking Fund Debentures Series A and 7% Convertible Sinking Fund Debentures Series B contains provisions restricting the payment of cash dividends, the most restrictive of which limits such payments to consolidated net earnings (as defined) in excess of 3½ times interest on the Company's long term debt.

6. Capital and Reservation of Shares

During the year 17,500 common shares were issued on the exercise of options for \$53,000 cash of which \$17,000 was credited to share capital and the balance to contributed surplus.

At December 31, 1971 common shares were reserved as follows:

- (i) 212,500 shares under an Employees' Stock Option Plan. Options to purchase 183,500 shares are outstanding including 101,000 to officers of whom two are

Directors. Options are granted at prices not less than 95% of market value at date of grant and are exercisable from time to time for 6 years. Details of options outstanding are as follows:

78,000 shares at \$3.00 per share exercisable to 1973

66,000 shares at \$7.25 per share exercisable to 1975

15,000 shares at \$6.40 per share exercisable to 1976

24,500 shares at prices varying between \$6.25 and \$6.80 per share exercisable to 1977

- (ii) 1,000,000 shares for the conversion of the 7% Convertible Sinking Fund Debentures Series B (see Note 4).

7. Earnings Per Share

Net income per common share is computed on the basis of the weighted average number of shares outstanding during the year. Exercise of all options and conversion of outstanding convertible debt would be anti-dilutive.

8. Income Taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges against earnings. As a result, no income taxes are payable in respect of the net income reported for the year ended December 31, 1971 and at that date accumulated expenditures of \$7,800,000 remain to be carried forward and applied against future taxable income. For 1971, capital cost allowance claims will be less than depreciation recorded in the accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes but the Company, in common with many other companies in the oil and gas industry in Canada, does not believe that tax allocation in respect of drilling, exploration and lease acquisition costs is appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

Had provision for deferred income taxes been made with respect to all differences in timing of deductions for tax and accounting purposes during 1970 and 1971, provisions for deferred income taxes would have been \$665,000 in 1971 (\$525,000 in 1970), resulting in reductions of net income after adjustment for minority interest of \$585,000 or 8c per share in 1971 (\$465,000 or 7c per share in 1970). The accumulated income tax deferrals relative to all timing differences amounted to approximately \$4,875,000 at December 31, 1971, including income taxes deferred by Western & Texas Oil Co. Limited prior to acquisition (see Note 1).

9. Statutory Information

Included in charges against income during the 1971 year are the following:

Remuneration of directors and officers –		
Aggregate remuneration of ten directors as directors	\$	5,000
Aggregate remuneration of six officers (two officers are also directors)		185,000
Interest on funded debt		681,000
Depreciation and depletion –		
Depreciation of plant and equipment	\$	493,000
Depletion of oil and gas properties	1,908,000	2,401,000

10. Commitments

The Company has issued non-interest bearing demand notes to the Government of Canada as security for the performance of work obligations by the Company and others in respect of normal exploration activity. The aggregate of such notes amounted to approximately \$1,176,000 at December 31, 1971.

11. Subsequent Event

In January, 1972 the Company issued and sold, in the United States, 1,000,000 common shares for a cash consideration of \$6.95 U.S. per share. The net proceeds amounting to approximately \$6,800,000 after expenses will be used to repay short term indebtedness and the balance to carry on and expand its program of acquisition, exploration and development of oil and gas properties.

Auditors' Report

To the Shareholders of
WESTERN DECALTA PETROLEUM LIMITED.

We have examined the consolidated balance sheet of Western Decalta Petroleum Limited and its subsidiary companies as at December 31, 1971 and the consolidated statements of income, earned surplus, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Western Decalta Petroleum Limited and its subsidiary companies as at December 31, 1971, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 4, 1972.

CLARKSON, GORDON & CO.
Chartered Accountants.

10 Year Financial Review *(thousands of dollars, except per share amounts)*

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Income										
Net oil sales	\$ 5,460	\$ 4,342	\$ 3,891	\$ 3,658	\$ 3,705	\$ 3,631	\$ 3,149	\$ 3,080	\$ 2,876	\$ 2,114
Net gas sales	1,203	1,195	1,061	933	367	331	364	361	300	199
Royalty revenue	84	67	80	92	94	84	92	97	92	87
Net oil and gas sales	6,747	5,604	5,032	4,683	4,166	4,046	3,605	3,538	3,268	2,400
Interest and other income	174	196	136	124	49	110	155	115	113	87
Gross income	6,921	5,800	5,168	4,807	4,215	4,156	3,760	3,653	3,381	2,487
Percentage of Sales										
Net oil sales – %	81	77	77	78	89	90	87	87	88	88
Net gas sales – %	18	21	21	20	9	8	10	10	9	8
Royalty revenue – %	1	2	2	2	2	2	3	3	3	4
Cash Expenses										
Production	1,585	1,270	1,164	1,086	1,021	957	863	861	867	600
General and administrative (net) ..	289	212	167	297	168	188	114	69	63	77
Interest	967	934	885	824	678	608	529	351	314	220
Cash Flow	4,080	3,384	2,952	2,600	2,348	2,403	2,254	2,372	2,137	1,590
Per share	0.57	0.48	0.43	0.38	0.35	0.35	0.33	0.36	0.32	0.24
Other Costs										
Depreciation and depletion	2,401	2,069	1,850	1,830	1,688	1,609	1,339	1,349	see note (2)	
Debtenture issue items	(90)	(82)	22	(68)	11	17	56	(2)	–	–
Minority interests	230	179	164	115	93	85	93	125	–	–
Net Income before										
extraordinary gains	1,539	1,218	916	723	556	692	766	900	231	152
Per share	0.22	0.17	0.14	0.10	0.08	0.11	0.11	0.14	see note (2)	
Extraordinary gains	–	–	107	–	64	–	–	–	–	–
Per share	–	–	0.01	–	0.01	–	–	–	–	–
Balance Sheet Data										
Working capital	2,226	3,529	1,274	2,660	1,646	365	2,481	508	949	819
Property and equipment - net	32,896	30,345	29,881	26,447	23,232	21,966	19,142	16,295	13,998	10,893
Long term debt	9,999	10,399	11,500	11,900	9,615	9,723	9,731	5,730	4,914	4,381
Deferred production income	5,077	5,401	3,707	3,121	1,949	–	–	–	–	–
Minority interest in subsidiaries ..	2,670	2,317	2,138	1,965	1,651	1,613	1,532	1,442	1,343	241
Shareholders' equity	17,767	16,175	14,277	13,084	12,311	11,635	10,877	9,711	8,796	8,565
Other Data										
Shares outstanding										
(thousands of shares)	7,130	7,113	6,940	6,883	6,867	6,828	6,768	6,582	6,570	6,570
Number of shareholders	5,599	5,756	4,494	4,542	4,698	4,934	4,702	4,144	3,993	4,145
Number of employees	81	84	82	74	71	68	71	71	69	71

(1) The above statistics are for Western Decalta Petroleum Limited and its subsidiary companies at December 31.

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1964.

10 Year Financial Review (thousands of dollars, except per share amounts)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Expenditures For Finding and Developing Production										
Land acquisitions and rentals	\$ 748	\$ 546	\$ 2,548	\$ 537	\$ 1,270	\$ 1,470	\$ 2,197	\$ 1,998	\$ 559	\$ 375
Geological and geophysical	904	457	628	640	548	459	235	206	180	209
Dry holes	759	534	444	403	301	355	427	200	296	94
Productive drilling	218	261	742	567	492	1,678	999	788	956	129
Production equipments	541	679	870	501	403	387	284	295	417	255
Capital assets of acquired companies	1,749	—	—	2,293	—	—	—	—	—	—
Total	4,919	2,477	5,232	4,941	3,014	4,349	4,142	3,487	2,408	1,062
Classification										
Exploration	2,419	1,401	1,857	1,194	1,031	1,760	1,392	811	919	480
% of total	49	57	36	24	34	40	34	23	38	45
Development	2,500	1,076	3,375	3,747	1,983	2,589	2,750	2,676	1,489	582
% of total	51	43	64	76	66	60	66	77	62	55
Source and Application of Funds										
Cash flow from operations	4,080	3,384	2,952	2,600	2,348	2,403	2,254	2,372	2,137	1,590
Sale of production payments	3,165	4,005	2,525	2,440	2,000	—	—	—	—	—
Addition to long-term debt	—	—	—	5,000	500	500	7,047	1,400	3,000	1,905
Issue of capital stock	53	779	171	49	57	66	88	15	—	—
Other sources	127	26	589	80	94	—	—	10	8	—
Total sources of funds	7,425	8,194	6,237	10,169	4,999	2,969	9,389	3,797	5,145	3,495
Expenditures for finding and developing production	4,919	2,477	5,232	4,941	3,014	4,349	4,142	3,487	2,408	1,062
Other capital outlays	33	56	52	103	26	85	45	16	50	28
Retirement of production payments	3,489	2,311	1,939	1,268	51	—	—	—	—	—
Repayments of long-term debt	287	996	400	2,610	597	502	3,198	582	2,462	496
Other applications	—	99	—	233	30	149	31	153	95	1,477
Total application of funds	8,728	5,939	7,623	9,155	3,718	5,085	7,416	4,238	5,015	3,063
Increase (decrease) in working capital	(1,303)	2,255	(1,386)	1,014	1,281	(2,116)	1,973	(441)	130	432

10 Year Review of Operations (Exploration and Production)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Land (thousands of net acres)	10,870	11,302	12,130	9,467	8,731	8,579	6,654	7,129	7,166	7,216
Canada										
Alberta	183	166	299	290	400	423	308	248	400	431
British Columbia	26	13	13	15	33	29	23	20	30	20
Hudson Bay	490	781	840	632	255	135	—	—	—	—
New Brunswick	5,453	5,453	5,453	5,453	5,453	5,453	5,453	6,587	6,587	6,587
Newfoundland (offshore)	739	739	739	—	—	—	—	—	—	—
Northwest Territories	2,103	2,216	2,524	2,290	1,648	1,648	713	222	62	95
Arctic Islands	1,284	1,284	1,425	—	—	—	—	—	—	—
Beaufort Sea	367	364	481	—	—	—	—	—	—	—
Ontario	153	188	232	232	43	43	43	45	46	46
Saskatchewan	41	70	98	543	890	837	110	6	40	36
United States										
Alaska	20	20	20	3	—	—	—	—	—	—
Other	11	8	6	9	9	11	4	1	1	1
Net Oil and Condensate										
Production (thousands of barrels)	1,973	1,679	1,528	1,463	1,478	1,445	1,244	1,213	1,122	825
Alberta										
Joarcam	34	32	31	43	42	37	39	41	44	42
Mitsue	214	199	177	114	117	91	13	—	—	—
Pembina (Cardium)	418	395	345	302	279	285	315	340	319	233
(Belly River)	83	68	64	74	75	70	61	12	—	—
Red Coulee	102	63	40	30	20	23	4	—	—	—
Rimbey	31	31	31	35	35	33	36	37	33	29
Simonette	116	96	85	50	53	57	50	56	43	—
Sturgeon Lake South	165	167	135	147	177	143	148	131	99	25
Turner Valley	71	67	63	56	55	57	57	61	57	44
Wainwright	170	21	21	23	22	19	9	—	—	—
West Drumheller	135	126	126	163	170	161	170	176	180	189
Other fields	141	133	138	145	157	156	154	184	211	177
Total - Alberta	1,680	1,398	1,256	1,182	1,202	1,132	1,056	1,038	986	739
British Columbia	56	50	49	42	37	35	20	19	—	—
Saskatchewan	97	110	120	135	122	79	86	88	65	30
New Brunswick	8	7	12	10	12	1	3	5	8	7
Total - Canada	1,841	1,565	1,437	1,369	1,373	1,247	1,165	1,150	1,059	776
Montana	109	91	64	70	74	160	35	22	13	13
Texas	23	23	27	24	31	38	44	41	50	36
Total - U.S.A.	132	114	91	94	105	198	79	63	63	49
Average Daily - barrels	5,405	4,600	4,188	3,997	4,049	3,959	3,408	3,314	3,074	2,260
Average Price - \$/bbl.	2.77	2.59	2.55	2.50	2.51	2.51	2.53	2.54	2.56	2.56

10 Year Review of Operations (Exploration and Production)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Natural Gas Deliveries										
(millions of cubic feet) (a)	5,302	5,429	4,401	3,561	1,501	1,242	1,363	1,358	1,062	817
Alberta										
Athabasca	104	95	96	96	89					
Bittern Lake	98	105	140	127	7					
Ghost Pine	1,048	1,205	908	535	—					
Gilby	280	322	279	208	242					
Gordondale	49	66	—	—	—					
Hussar - Mallow	166	—	—	—	—					
Mitsue	106	51	—	—	—					
Pembina	211	206	154	122	100					
Rimbey	849	838	755	713	747					
Simonette	288	209	99	64	63					
Sturgeon Lake South	113	115	1	—	—					
Turner Valley	178	208	177	176	129					
Other fields	81	135	29	—	—					
Total - Alberta	3,571	3,555	2,638	2,041	1,377					
British Columbia	18	—	—	—	—					
Saskatchewan	55	129	61	78	3					
Ontario	1,429	1,561	1,601	1,334	22					
New Brunswick	100	125	101	108	99					
Total - Canada	5,173	5,370	4,401	3,561	1,501					
Texas, U.S.A.	129	59	—	—	—					
Average Daily - mmcf	14.5	14.9	12.0	9.7	4.1					
Average Price - ¢/mcf (b)	22.7	22.0	24.1	26.2	24.5					
Drilling Activity										
Gross wells completed	59	50	45	40	26	74	74	35	45	15
Net wells completed	14.7	11.6	12.7	19.0	8.6	30.7	24.3	17.0	18.3	4.4
Exploratory										
Oil	0.6	0.6	0.1	0.4	0.5	0.6	0.2	0.8	1.0	—
Gas	1.5	1.9	3.3	1.0	0.5	—	0.5	0.1	0.4	1.0
Dry	7.7	5.8	6.5	5.0	3.0	3.2	5.1	4.4	4.5	2.4
Development										
Oil	3.8	2.8	1.6	4.3	3.9	22.8	10.7	11.3	8.6	1.0
Gas	0.1	0.1	0.4	3.2	0.2	0.4	1.2	—	0.9	—
Dry	1.0	0.4	0.8	5.1	0.5	3.7	6.6	0.4	2.9	—
Reserves (gross) (3)										
Oil (thousands of barrels)	35,833	33,654	35,694	36,988	34,721	34,103	31,514	28,628	24,176	18,956
Gas (billions of cubic feet)	200.0	208.0	210.0	168.0	126.8	98.2	103.2	55.8	61.5	58.5
Sulphur (thousands of long tons) ..	643	645	665	303	301	305	322	—	—	—



(a) Volumes 1967-70 revised to include casing-head gas from Pembina and Turner Valley fields.

(b) Price includes value of natural gas liquids.

(3) Includes proven and probable additional reserves, excluding minority interests in subsidiary companies. Reserves have been calculated by an independent consultant.

THE PETROL OIL & GAS COMPANY, LIMITED

Western Decalta owns 50.08% of the 3,995,000 total outstanding shares of The Petrol Oil & Gas Company, Limited.

Petrol's net income in 1971 amounted to \$411,000 or 38% higher than that of 1970 at \$298,000. Net oil production increased from 261,000 barrels in 1970 to 298,000 barrels (+14%) in 1971. The higher oil production volumes were derived chiefly from the company's Mitsue, Pembina and Simonette oil properties in Alberta. Natural gas deliveries in 1971 totalled 501 million cubic feet compared with 500 last year.

During 1972 and 1973, Petrol will be participating in expenditures to raise the productivity of the Simonette field to meet the increasing demand for crude oil. The gas processing plant will be expanded from 15 mmcf/d to 37 mmcf/d to handle the higher volume of gas associated with increased oil production. Petrol's share of the plant expansion cost is estimated at \$650,000.

CONSOLIDATED WEST PETROLEUM LIMITED

Western Decalta owns 92.6% of the 1,329,088 outstanding common shares of Consolidated West Petroleum Limited.

Gross income during 1971 totalled \$694,000 compared with \$552,000 in 1970. Cash flow decreased by \$121,000 to \$375,000 as production expenses increased by \$91,000 owing to a 20 well abandonment program; gas sales were lower by \$47,000 due to a labor strike and mechanical failures at the purchaser's gas plant in the early part of the year. Net income amounted to \$143,000 compared with \$298,000 in 1970.

NEW BRUNSWICK OILFIELDS, LIMITED

Western Decalta owns 82% of the 2,050,030 outstanding shares of New Brunswick Oilfields, Limited. NBO sells natural gas to the Moncton Utility and also has small oil production from the Stoney Creek field. NBO holds exploratory rights on and offshore over most of the sedimentary basin of the Province of New Brunswick.

Net loss for 1971 was \$78,000 compared with a loss of \$30,000 in 1970. Net oil and gas sales at \$104,000 were down from \$142,000 in 1970, reflecting the productivity decline in the gas producing field at Stoney Creek, New Brunswick and the sale of an oil producing property at Breton, Alberta. Natural gas deliveries in 1971 amounted to 106,000 mcf (132,000 mcf in 1970) while crude oil sales totalled 16,000 barrels (29,000 barrels in 1970).

WESTERN & TEXAS OIL CO. LIMITED

Western Decalta acquired control of Westex in March 1971 and at the year end held 88.3% of the 3,222,953 outstanding common shares and 99.0% of the 1,250,000 outstanding preferred shares.

During the period, April 1 - December 31, 1971, Westex's gross income totalled \$328,000; cash flow was \$235,000 and net income, \$126,000. Net oil production for the same period amounted to 152,000 barrels (200,000 barrels for the year) derived from its 23.3% interest in Wainwright Unit No. 2. Since March 1971, the company has acquired an acreage position in Alberta, the Arctic Islands and New Brunswick totalling 244,300 gross (21,400 net) acres. In December 1971, the company purchased a 4.1% interest in a gas producing unit at Ghost Pine, Alberta.

Western Decalta provides managerial and technical services for each of these subsidiaries.

Decalta's Interests in Subsidiaries

Companies	Decalta's Interest	Incorporated Under the Laws of	Areas of Operations
ALBERMONT PETROLEUMS INCORPORATED ..	100.0%	Montana	Montana and Texas
DECALTA OIL DEVELOPMENTS LTD.	100.0%	Canada	Western Canada
DECALTA OIL ENTERPRISES, INC.	100.0%	Montana	Montana and Western Canada
WESTERN DECALTA (U.K.) LIMITED	100.0%	United Kingdom	North Sea
MERCHANTS OIL CO. LTD.	100.0%	Alberta	Alberta
CONSOLIDATED WEST PETROLEUM LIMITED ..	92.6%	Ontario	Lake Erie, Ontario and Western Canada
NEW BRUNSWICK OILFIELDS, LIMITED	82.0%	New Brunswick	New Brunswick and Western Canada
SOUTH BRAZEAU PETROLEUMS LIMITED	63.1%	Alberta	Alberta
THE PETROL OIL & GAS COMPANY, LIMITED ..	50.1%	Ontario	Western Canada
THE PETROL OIL & GAS CORPORATION	*	Delaware	Texas and Oklahoma
PETROL MINERAL ENTERPRISES LTD.	*	British Columbia	Alberta
WESTERN & TEXAS OIL CO. LIMITED	88.3%	Ontario	Alberta

All of Western Decalta's subsidiary companies are engaged in oil and gas exploration and production in the areas designated.

* Wholly-owned subsidiaries of The Petrol Oil & Gas Company, Limited.

Directors

Alan T. Christie, Hartsdale, New York
Private Investments

Ralph C. C. Henson, Toronto, Ontario
Director of Standard Securities Limited

N. K. Kinkead-Weekes, London, England
Executive Director of Charter Consolidated Limited
Alternate Director and Manager of Anglo American
Corporation of South Africa, Limited
Director of Interlink Investments Limited

Charles S. Lee, Calgary, Alberta
Chairman and Chief Executive Officer of the Company
President of The Petrol Oil & Gas Company, Limited
Director of Consolidated West Petroleum Limited

F. Richard Matthews, Q.C., Calgary, Alberta
Partner in MacKimmie Matthews
Barristers and Solicitors

Alan B. McKerron, Johannesburg, South Africa
Manager of Anglo American Corporation of
South Africa, Limited
Director of Interlink Investments Limited

Gavin W. H. Relly, Toronto, Ontario
Chairman and President of Anglo American
Corporation of Canada Limited
Chairman and President of Interlink Investments Limited

Alastair H. Ross, Calgary, Alberta
President of the Company
Vice-President of The Petrol Oil & Gas Company, Limited
President of Consolidated West Petroleum Limited

Sidney Spiro, London, England
Chairman and Managing Director of
Charter Consolidated Limited
Director of Interlink Investments Limited

Dr. Arnold E. Waters, Jr., Lower Waterford, Vermont
Vice-President, Exploration, Anglo American
Corporation of Canada Limited

Officers

C. S. Lee, Chairman and Chief Executive Officer

A. H. Ross, President

E. L. Morris, Vice-President, Production

A. M. Patterson, Vice-President, Exploration

L. G. Elhatton, Secretary-Treasurer

Operating and Administrative Management

R. A. Robinson, Comptroller

J. H. Lefavre, Land Manager

W. G. Tyler, Chief Engineer

Corporate

HEAD OFFICE

8th Floor, 630 Sixth Avenue S.W.
Calgary 1, Alberta

REGISTRARS AND TRANSFER AGENTS FOR SHARES

Crown Trust Company –

401 - 8th Avenue S.W., Calgary 2, Alberta

302 Bay Street, Toronto 101, Ontario

455 Howe Street, Vancouver, British Columbia

393 St. James St. West, Montreal, Quebec

First National City Bank –

55 Wall Street, New York, N.Y. 10005

Bank of America – National Trust and Savings Association

111 West Seventh Street, Los Angeles, California 90014

REGISTRAR AND TRANSFER AGENTS FOR DEBENTURES

Guaranty Trust Company of Canada –

Calgary, Toronto, Montreal, Vancouver

BANKERS

The Royal Bank of Canada – Calgary, Alberta

AUDITORS

Clarkson, Gordon & Co. – Calgary, Alberta

SOLICITORS

MacKimmie Matthews – Calgary, Alberta

SHARES LISTED (symbol WDC)

Toronto Stock Exchange

Calgary Stock Exchange

American Stock Exchange

Pacific Coast Stock Exchange

SUBSIDIARY COMPANIES

Albermont Petroleums Incorporated

Consolidated West Petroleum Limited

Decalta Oil Developments Ltd.

Decalta Oil Enterprises, Inc.

Merchants Oil Co. Ltd.

New Brunswick Oilfields, Limited

South Brazeau Petroleums Limited

The Petrol Oil & Gas Company, Limited

Western Decalta (U.K.) Limited

Western & Texas Oil Co. Limited

Annual Meeting

The annual meeting of shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 18, 1972 at 10:00 a.m. local time. A formal notice of the meeting, together with a proxy form and information circular, is enclosed with this report.

In this report

All figures and interest shown for "Decalta" or "the Company", unless otherwise stated, represent the consolidated total of Decalta and its subsidiaries for the year 1971.

Western Decalta Petroleum Limited

Annual Report 1971